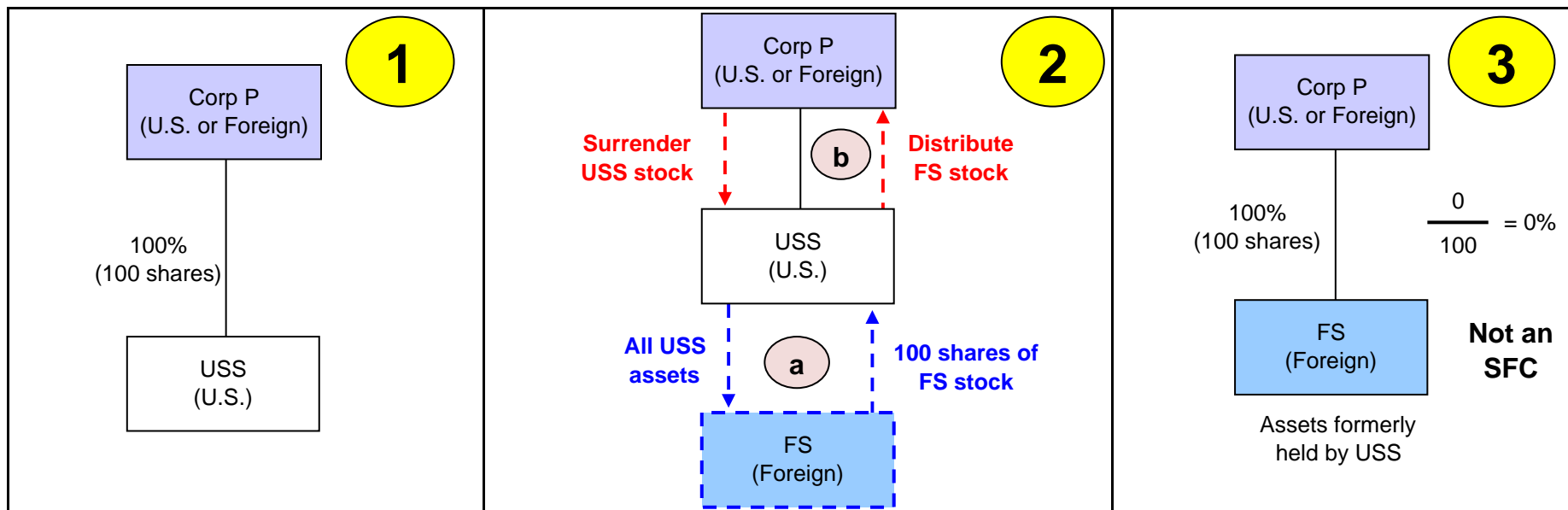


Outbound Asset Reorganization as an Internal Group Restructuring

Initial Structure

Outbound Reorganization

Ending Point



P, a corporation, owns all 100 outstanding shares of USS, a domestic corporation. USS forms FS, a foreign corporation, and transfers all its assets to FS in exchange for all 100 shares of the stock of FS, in a reorganization described in section 368(a)(1). P exchanges its USS stock for FS stock under section 354.

FS has directly acquired substantially all the properties held directly or indirectly by USS pursuant to a plan. The acquisition is an internal group restructuring described in Reg. 1.7874-1(c)(2) because P, the common parent of the EAG after the acquisition, held directly or indirectly 80 percent or more of the stock (by vote and value) of USS before the acquisition, and after the acquisition, P holds directly or indirectly 80 percent or more of the stock (by vote and value) of FS. Accordingly, under Reg. 1.7874-1(c)(1), the FS stock held by P is included in the denominator, but not in the numerator of the ownership fraction. Therefore, the ownership fraction is 0/100. FS is not a surrogate foreign corporation. The analysis is limited to a discussion of issues under section 7874, even though the example may raise other issues (for example, under section 367).